

**Judges' Retirement System II
Actuarial Valuation
as of
June 30, 2005**

**Establishing Required Contributions
for the Fiscal Year
July 1, 2006 through June 30, 2007**

Table of Contents

Actuarial Certification	2
Highlights and Executive Summary	
Purpose of the Report	4
Employer Contribution Rate	4
Employer Contribution Rate History	5
Funded Status of the Plan as of June 30, 2005	5
History of Funded Status and Funding Progress	5
Changes Since Prior Valuation	6
Comparison of Current and Prior Year Valuation Results	7
Summary of Liabilities and Required Employer Contribution	
Development of Employer Normal Cost	9
Development of Accrued and Unfunded Liability	10
Gain/Loss Analysis	11
Schedule of Amortization Bases	12
Development of Employer Contribution	13
Reconciliation of Employer Contribution Rates	14
Reconciliation of Estimated Employer Contributions	14
Summary of Assets	
Asset Allocation	16
Reconciliation of the Market Value of Assets Over the Prior Fiscal Year	16
Development of the Actuarial Value of Assets	17
Asset Allocation	18
Summary of Participant Data	
Reconciliation of Participants	20
Distribution of Active Participants by Age and Service	21
Distribution of Average Monthly Salaries by Age and Service	21
Appendix A Statement of Actuarial Methods and Assumptions	A-1
Appendix B Summary of Principal Plan Provisions	B-1

Actuarial Certification

To the best of our knowledge, this report is complete and accurate and contains sufficient information to fully and fairly disclose the actuarial funded condition of the Judges' Retirement System II as of June 30, 2005. Based on the employee data provided by the Judges' Retirement System administrative staff at CalPERS, the statement of assets provided by the CalPERS Fiscal Services Division, and the benefits as outlined in Appendix B, it is our opinion that the valuation has been performed in accordance with generally accepted actuarial principles and that the assumptions and methods are reasonable for this plan.



Nancy E. Campbell, A.S.A., M.A.A.A.
Enrolled Actuary
Senior Pension Actuary, CalPERS



Ron Seeling, Ph.D., F.C.A., A.S.A., M.A.A.A.
Enrolled Actuary
Chief Actuary, CalPERS

Highlights and Executive Summary

- Purpose of the Report
- Employer Contribution Rate
- Employer Contribution Rate History
- Funded Status of the Plan as of June 30, 2005
- History of Funded Status and Funding Progress
- Changes Since Prior Valuation
- Comparison of Current and Prior Year

Purpose of the Report

This actuarial valuation of the Judges' Retirement System II of the State of California was performed by CalPERS staff actuaries as of June 30, 2005 in order to

- set forth the actuarial assets and funding liabilities of this plan as of June 30, 2005;
- establish the actuarially required contribution rate for this plan for the fiscal year July 1, 2006 through June 30, 2007; and
- provide actuarial information as of June 30, 2005, to the CalPERS Board of Administration and other interested parties.

The use of this report for other purposes may be inappropriate.

Employer Contribution Rate

This is the eleventh annual actuarial valuation of the Judges' Retirement System II. This system began on November 9, 1994, to provide retirement and ancillary benefits to judges elected or appointed on or after that date. The employer contribution rate from the inception of the plan until June 30, 1996, was set by State statute. Subsequently, the employer contribution rate was determined through an actuarial valuation process. This actuarial valuation sets forth the employer contribution rate for the plan for the fiscal year July 1, 2006 through June 30, 2007. The employer contribution rate for the period July 1, 2005 through June 30, 2006 is shown for comparison purposes.

Actuarially Required Contributions

Fiscal Year	Fiscal Year
<u>July 1, 2005 - June 30, 2006</u>	<u>July 1, 2006- June 30, 2007</u>
19.848%	19.917%

Employer Contribution Rate History

The table below provides a history of the contribution rates.

<u>Fiscal Year</u>	<u>Contribution Rate</u>
1995-96	18.800%
1996-97	19.170%
1997-98	21.920%
1998-99	21.540%
1999-00	18.567%
2000-01	18.130%
2001-02	18.508%
2002-03	19.231%
2003-04	19.217%
2004-05	20.252%
2005-06	19.848%
2006-07	19.917%

Funded Status of the Plan as of June 30, 2005

<u>Aggregate Entry Age</u> <u>Normal Accrued Liability</u>	<u>Actuarial Value</u> <u>of Assets</u>	<u>Unfunded</u> <u>Liability/(Excess Assets)</u>	<u>Funded</u> <u>Ratio</u>
\$ 177,760,708	\$ 167,556,473	\$10,204,235	94.26%

History of Funded Status and Funding Progress

Shown below is the history of funding progress for the plan. One could view the trend in the ratio of the unfunded liability to covered payroll as a measure of the ability of the employer to address the unfunded liability.

<u>Valuation</u> <u>Date</u>	<u>Aggregate</u> <u>Entry Age</u> <u>Normal</u> <u>Accrued</u> <u>Liability</u>	<u>Actuarial</u> <u>Value</u> <u>of</u> <u>Assets</u>	<u>Funded</u> <u>Ratio</u>	<u>Unfunded</u> <u>Accrued</u> <u>Liability</u>	<u>Projected</u> <u>Annual</u> <u>Covered</u> <u>Payroll*</u>	<u>Unfunded</u> <u>as a % of</u> <u>Covered</u> <u>Payroll</u>
6/30/95	\$ 70,657	\$ 239,474	338.90%	(\$168,817)	\$ 3,944,181	(4.30%)
6/30/96	2,812,567	2,387,870	84.90%	424,697	11,762,307	3.60%
6/30/97	7,906,056	7,242,314	91.60%	663,742	21,220,469	3.10%
6/30/98	15,043,465	15,120,408	100.51%	(76,943)	32,960,219	(0.23%)
6/30/99	26,921,274	27,154,854	100.87%	(233,580)	41,448,759	(0.56%)
6/30/00	41,619,162	40,503,417	97.32%	1,115,745	48,450,504	2.30%
6/30/01	60,933,072	55,954,506	91.83%	4,978,566	69,937,653	7.12%
6/30/02	76,459,252	71,928,890	94.07%	4,530,362	80,237,849	5.65%
6/30/03	105,116,289	96,107,358	91.43%	9,008,931	95,612,128	9.42%
6/30/04	137,703,630	129,152,543	93.79%	8,551,087	108,842,477	7.86%
6/30/05	177,760,708	167,556,473	94.26%	10,204,235	122,280,588	8.34%

*Projected from the valuation date using a half year of the expected payroll growth assumption

Changes Since Prior Valuation

Actuarial Assumptions – No changes were made since the prior valuation.

Actuarial Methods – No changes were made since the prior valuation.

Plan Provisions - No changes were made since the prior valuation.

Comparison of Current and Prior Year Valuation Results

The table on the following page is a comparison of key valuation results for the current valuation date to the corresponding values from the prior valuation date.

<u>Valuation Results</u>	<u>June 30, 2004</u>	<u>June 30, 2005</u>
Members Included in the Valuation		
Active Members	686	747
Transfers and Vested Terminations	2	1
Receiving Benefits	5	9
Total	693	757
Covered Payroll Prior Fiscal Year	\$ 99,005,124	\$ 111,767,064
Projected Covered Annual Payroll for Rate Payment Year	\$ 128,362,432	\$ 143,127,437
Average Annual Pay	\$ 144,322	\$ 149,621
Average Attained Age for Actives	53.16	53.71
Average Entry Age for Actives	48.57	48.57
Present Value of Benefits at Valuation Date		
Active Members	\$ 415,211,137	\$ 481,595,620
Vested Terminated Members	133,210	56,533
Refunded Members	0	0
Receiving Benefits	1,090,275	1,729,582
Total	\$ 416,434,622	\$ 483,381,735
Accrued Liability		
Active Members	\$ 136,480,145	\$ 175,974,593
Vested Terminated Members	133,210	56,533
Refunded Members	0	0
Receiving Benefits	1,090,275	1,729,582
Total	\$ 137,703,630	\$ 177,760,708
Actuarial Value of Assets		
Employer Reserves	\$ 91,595,685	\$ 116,345,941
Accumulated Employee Accounts	37,556,858	51,210,532
Total	\$ 129,152,543	\$ 167,556,473
Unfunded Liability/(Excess Assets)	\$ 8,551,087	\$ 10,204,235
Funded Ratio	93.79%	94.26%
Employer Contribution Required (in Dollars)		
Payment for Normal Cost	\$ 25,198,829	\$ 28,131,698
Payment for Amortization Bases	278,329	374,658
Total	\$ 25,477,158	\$ 28,506,356
Contribution Required (Percent of Projected Payroll)		
Payment for Normal Cost	19.631%	19.655%
Payment for Amortization Bases	0.217%	0.262%
Total	19.848%	19.917%

Summary of Liabilities And Required Employer Contribution

- Development of Employer Normal Cost
- Development of Accrued and Unfunded Liability
- Gain/Loss Analysis
- Schedule of Amortization Bases
- Development of Employer Contribution
- Reconciliation of Employer Contribution Rates
- Reconciliation of Estimated Employer Contribution

Development of Employer Normal Cost

1. Present Value of Benefits for Active Members at Entry Age	\$ 325,650,228
2. Present Value of Future Salaries at Entry Age	\$ 1,177,549,136
3. Total Normal Cost Rate at Entry Age [(1)/(2)]	27.655%
4. Projected Covered Annual Payroll (7/1/06 – 6/30/07)	\$ 143,127,437
5. Total Normal Cost at Attained Age [(3)x(4)]	\$ 39,581,893
6. Expected Employee Contributions [8% x (4)]	\$ 11,450,195
7. Employer Normal Cost [(5) - (6)]	\$ 28,131,698
8. Employer Normal Cost Rate [(7)/(4)]	19.655%

Development of Accrued and Unfunded Liability

1. Present Value of Future Benefits at the Valuation Date	
a) Active Members	\$ 481,595,620
b) Vested Terminated Members	56,533
c) Refunded Members	0
d) Receiving Benefits	<u>1,729,582</u>
e) Total	\$ 483,381,735
2. Present Value of Future Employee Contributions at the Valuation Date	88,409,637
3. Present Value of Future Employer Normal Cost at the Valuation Date	217,211,390
4. Accrued Liability [(1e)-(2)-(3)]	\$ 177,760,708
5. Actuarial Value of Assets	
a) Employer Reserve	\$ 116,345,941
b) Employee Account Balances	<u>51,210,532</u>
c) Total	\$ 167,556,473
6. Unfunded Actuarial Liability [(4) - (5c)]	\$ 10,204,235

Gain/Loss Analysis

A. Total (Gain)/Loss for the Year

1. Unfunded Liability/(Excess Assets) as of 6/30/04	\$ 8,551,087
2. Expected Payment on the Unfunded Liability during 2004-2005	675,912
3. Interest through 6/30/05 $[0.0725 \times (A1) - ((1 + 0.0725)^{\frac{1}{2}} - 1) \times (A2)]$	595,881
4. Expected Unfunded Liability as of 6/30/05 Before All Other Changes $[(A1) - (A2) + (A3)]$	\$ 8,471,056
5. Change in Unfunded Liability as of 6/30/05 Due to New Plan Amendments	\$ 0
6. Change in Unfunded Liability as of 6/30/05 Due to Changes in Actuarial Methods	0
7. Change in Unfunded Liability as of 6/30/05 Due to Changes in Actuarial Assumptions	0
8. Expected Unfunded Liability as of 6/30/05 After All Other Changes $[(A4) + (A5) + (A6) + (A7)]$	\$ 8,471,056
9. Actual Unfunded Liability as of 6/30/05	10,204,235
10. Total (Gain)/Loss for 2004-2005 $[(A9) - (A8)]$	\$ 1,733,179

B. Contribution (Gain)/Loss for the Year

1. Expected Contribution for 2004-2005	\$ 30,750,177
2. Actual Contribution for 2004-2005	29,412,523
3. Contribution (Gain)/Loss for 2004-2005 $[(B1) - (B2)]$	\$ 1,337,654

C. Asset (Gain)/Loss for the Year

1. Actuarial Value of Assets as of 6/30/04	\$ 129,152,543
2. Contributions Received during 2004-2005	29,412,523
3. Benefits and Refunds Paid during 2004-2005	(1,668,738)
4. Expected Interest for 2004-2005 $[0.0725 \times (C1) + ((1 + 0.0725)^{\frac{1}{2}} - 1) \times ((C2) + (C3))]$	10,351,675
5. Expected Assets as of 6/30/05 $[(C1) + (C2) + (C3) + (C4)]$	\$ 167,248,003
6. Actual Actuarial Value of Assets as of 6/30/05	167,556,473
7. Asset (Gain)/Loss for 2004-2005 $[(C5) - (C6)]$	\$ (308,470)

D. Liability (Gain)/Loss for the Year

1. Total (Gain)/Loss for 2004-2005 (A10)	\$ 1,733,179
2. Contribution (Gain)/Loss for 2004-2005 (B3)	1,337,654
3. Asset (Gain)/Loss for 2004-2005 (C7)	(308,470)
4. Liability (Gain)/Loss for 2004-2005 $[(D1) - (D2) - (D3)]$	\$ 703,995

E. Development of the (Gain)/Loss Balance as of June 30, 2005

1. (Gain)/Loss Balance as of 6/30/04	\$ 8,164,955
2. Payment Made on the Balance during 2004-2005	670,458
3. Interest through 6/30/05 [$0.0725 \times (E1) - ((1 + 0.0725)^{\frac{1}{2}} - 1) \times (E2)$]	<u>568,081</u>
4. Scheduled (Gain)/Loss Balance as of 6/30/05 [(E1) - (E2) + (E3)]	\$ 8,062,578
5. (Gain)/Loss for Fiscal Year ending 6/30/05 [(A10) above]	<u>1,733,179</u>
6. Final (Gain)/Loss Balance as of 6/30/05 [(E4) + (E5)]	\$ 9,795,757

Schedule of Amortization Bases

The schedule below shows the development of the proposed payment on the Amortization Bases shown on page 6. Each row of the schedule gives a brief description of a base (or portion of the Unfunded Actuarial Liability (UAL)), the date the base was established, the balance of the base on the valuation date, and the number of years remaining in the amortization period. In addition, we show the expected payment for the year immediately following the valuation date, the balance on the date a year after the valuation date, and the scheduled payment for fiscal year 2006-2007. Please refer to Appendix A for an explanation of how amortization periods are determined.

Reason for Base	Date Established	Remaining Amortization Period	Balance on 6/30/05	Expected Payment on UAL 05-06	Amount Remaining on 6/30/06	Scheduled Payment for Fiscal Year 2006-2007
Assumption Change	6/30/02	17	\$ (336,016)	\$ (16,259)	\$ (343,539)	\$ (18,317)
Method Change	6/30/02	17	\$ (4,636,796)	\$ (224,360)	\$ (4,740,613)	\$ (252,759)
Assumption Change	6/30/03	18	\$ 5,331,354	\$ 246,783	\$ 5,462,305	\$ 277,970
Method Change	6/30/04	19	\$ 49,936	\$ 2,219	\$ 51,258	\$ 2,499
(Gain)/Loss	6/30/05	30	<u>\$ 9,795,757</u>	<u>\$ 227,619</u>	<u>\$ 10,270,224</u>	<u>\$ 365,265</u>
Total			\$ 10,204,235	\$ 236,002	\$ 10,699,635	\$ 374,658

In the June 30, 2004 valuation, an employer contribution rate for 2005-2006 was computed. This rate is the sum of the normal cost and UAL rate. In the foregoing table, the UAL rate for 2005-2006 is replaced by a better estimate equal to the rate computed in June 30, 2004 minus the normal cost rate computed in this valuation. This new UAL rate is then applied to the expected payroll for fiscal year 2005-2006 to determine the expected UAL payment for fiscal year 2005-2006. The difference between this total expected UAL payment for fiscal year 2005-2006 and the scheduled payments during fiscal year 2005-2006 on the other bases as determined in the prior valuation, becomes the (Gain)/Loss expected payment for 2005-2006. All (Gain)/Loss, Fresh Start, and Payment (Gain)/Loss amortization bases have been combined and are amortized over a rolling 30-year amortization period.

Development of Employer Contribution

1. Actuarially Required Employer Contribution in Dollars	
a) Employer Normal Cost	\$ 28,131,698
b) Amortization Payment of the Unfunded Liability	<u>374,658</u>
c) Total Required Employer Contribution Amount	\$ 28,506,356
2. Projected Covered Annual Payroll (7/1/06-6/30/07)	\$ 143,127,437
3. Required Employer Contribution as a Percentage of Payroll	
a) Employer Normal Cost	19.655%
b) Amortization Payment on the Unfunded Liability	<u>0.262%</u>
c) Total Required Employer Contribution Rate	19.917%

Reconciliation of Employer Contribution Rates

2005-2006 Employer Rate	19.848%
Effects of Changes in Demographics and Financial Results	0.069%
Effect of Plan Changes	0.000%
Effect of Assumption Changes	0.000%
Effect of Method Changes	0.000%
Total Effect of Changes	0.069%
2006-2007 Employer Rate	19.917%

Reconciliation of Estimated Employer Contribution (Based on Projected Annual Payroll)

2005-2006 Required Estimated Employer Contribution	\$ 25,477,158
Effect of Change in Payroll Over Time	\$ 2,930,558
Effect of (Gain)/Loss	98,640
Effect of Plan Changes	0
Effect of Assumption Changes	0
Effect of Method Changes	0
Total Effect of Changes	\$ 3,029,198
2006-2007 Required Estimated Employer Contribution	\$ 28,506,356

Summary of Assets

- Asset Allocation
- Reconciliation of the Market Value of Assets Over the Prior Fiscal Year
- Development of the Actuarial Value of Assets
- Asset Allocation

Asset Allocation

Cash	\$ 232
Investments at Market Value	
Surplus Money Investment Fund	2,238,000
Short-term Investment Fund	4,661,852
Domestic Equity	56,188,381
Domestic Debt Securities	61,450,589
International Equity	30,927,874
Real Estate Equities	<u>16,602,245</u>
Subtotal of Investments	\$ 172,068,941
Accounts Receivable	
Due from Other Funds	60,206
Interest Accrued on Investments	25,563
Member and Employer Contributions	<u>2,822,503</u>
Subtotal of Accounts Receivable	\$ 2,908,272
Accounts Payable	
Retirement in Process of Payment	(72,419)
Other Program Liabilities	<u>(3,029,979)</u>
Subtotal of Accounts Payable	\$ (3,102,398)
Fund Balance at Market Value on Valuation Date	\$ 171,875,047

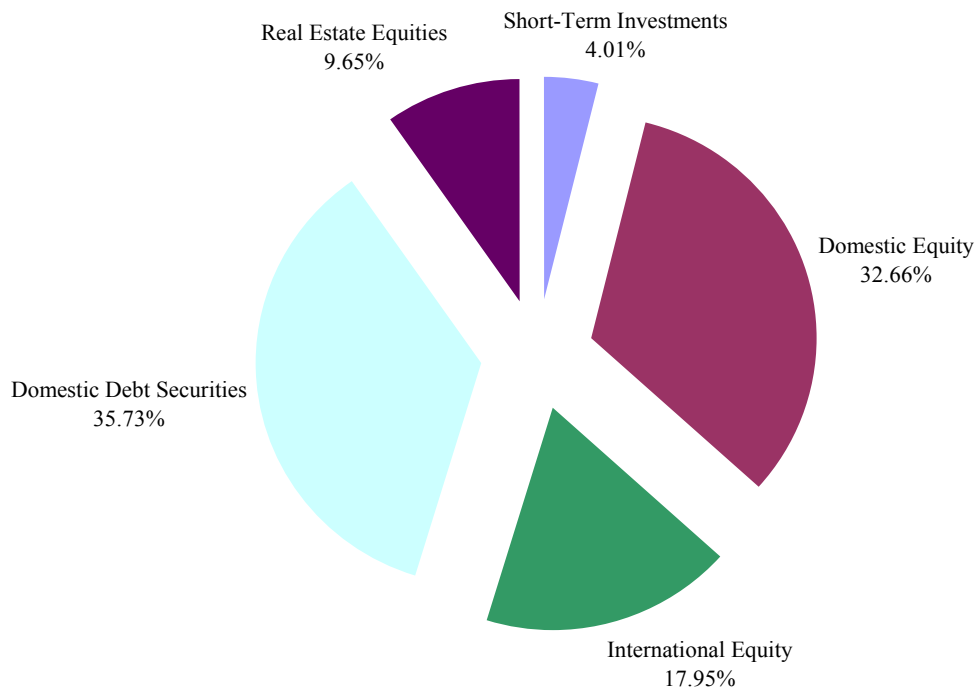
Reconciliation of Market Value of Assets Over the Prior Fiscal Year

1. Beginning Balance as of 6/30/2004	\$ 129,315,504
2. Contributions:	
Member	8,217,015
Employer	21,195,508
3. Benefit Payments	(903,641)
4. Refunds	(339,940)
5. Administration Costs	(425,157)
6. Investment Earnings	<u>14,815,758</u>
7. Ending Balance as of 6/30/2005	\$ 171,875,047

Development of the Actuarial Value of Assets

1.	Actuarial Value of Assets as of 6/30/2004	\$ 129,152,543
2.	Contributions Received during fiscal 2004-2005	
	Member Contributions	8,217,015
	Employer Contributions	21,195,508
	Total Contributions	<u>29,412,523</u>
3.	Deductions	
	Benefit Payments	(903,641)
	Refunds	(339,940)
	Administration Costs	(425,157)
	Total Deductions	<u>(1,668,738)</u>
4.	Total Current Year Change [(2)+(3)]	27,743,785
5.	Expected Investment Return during fiscal 2004-2005 [(1) x 0.0725 + (4) x ((1.0725) ^{1/2} - 1)]	10,351,675
6.	Expected Actuarial Value of Assets as of June 30, 2005 [(1) + (4) + (5)]	167,248,003
7.	Market Value of Assets as of June 30, 2005	171,875,047
8.	One-Fifteenth of the Difference Between Market Value of Assets and Expected Actuarial Value of Assets [(7) - (6)] x 1/15	<u>308,470</u>
9.	Preliminary Actuarial Value of Assets [(6) + (8)]	167,556,473
10.	Ratio of Preliminary Actuarial Value of Assets to Market Value of Assets [(9) / (7)]	97.49%
11.	Final Actuarial Value of Assets as of June 30, 2005 Not to be less than 80% of MVA or Greater than 120% of MVA	\$ 167,556,473
12.	Final Ratio of Actuarial Value of Assets to Market Value of Assets [(11) / (7)]	97.49%

Asset Allocation as of June 30, 2005 (Dollar Value in the Millions)



Receivables and liabilities of \$2.9 million and \$3.1 million, respectively, are not included.

Summary of Participant Data

- **Reconciliation of Participants**
- **Distribution of Active Participants by Age and Service**
- **Distribution of Average Monthly Salaries by Age and Service**

Reconciliation of Participants

Active Members on June 30, 2004	686
Disabilities	0
Retirements	0
Deaths	(3)
Non-Vested Terminations	(1)
Vested Terminations	0
New Entrants	65
Data Errors	0
	<hr/>
Active Members on June 30, 2005	747
 Separated Members on June 30, 2004	 2
Vested Terminations Paid	(1)
	<hr/>
Separated Members on June 30, 2005	1
 Receiving Benefits on June 30, 2004	 5
Disabilities	1
Retirements	0
Deaths	0
Benefits Ceasing (Beneficiaries)	0
New Receiving (Beneficiaries)	3
	<hr/>
Receiving Benefits on June 30, 2005	9

**Distribution of Active Participants by Age and Service
As of June 30, 2005**

Attained Age	Years of Service at Valuation Date							Total
	0-1	1-2	2-3	3-4	4-5	5-9	10+	
<35	0	0	0	0	0	0	0	0
35-39	1	0	2	0	0	0	0	3
40-44	23	6	15	9	3	11	0	67
45-49	10	19	26	11	21	46	7	140
50-54	12	20	37	25	25	88	5	212
55-59	14	14	14	20	28	70	9	169
60-64	3	6	8	6	15	60	4	102
65+	2	3	1	2	6	32	8	54
Total	65	68	103	73	98	307	33	747

**Distribution of Average Monthly Salaries by Age and Service
As of June 30, 2005**

Attained Age	Years of Service at Valuation Date							Total
	0-1	1-2	2-3	3-4	4-5	5-9	10+	
<35	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
35-39	\$149,160	\$ 0	\$149,160	\$ 0	\$ 0	\$ 0	\$ 0	\$149,160
40-44	\$149,160	\$149,160	\$149,160	\$149,160	\$149,160	\$149,160	\$ 0	\$149,160
45-49	\$149,160	\$149,160	\$149,988	\$149,160	\$149,160	\$149,160	\$149,160	\$149,314
50-54	\$149,160	\$149,160	\$149,160	\$149,160	\$150,021	\$149,405	\$149,160	\$149,363
55-59	\$149,160	\$149,160	\$149,160	\$149,160	\$149,160	\$151,313	\$151,553	\$150,179
60-64	\$149,160	\$149,160	\$149,160	\$149,160	\$149,160	\$149,519	\$149,160	\$149,371
65+	\$149,160	\$149,160	\$149,160	\$159,927	\$149,160	\$150,506	\$151,852	\$150,755
Total	\$149,160	\$149,160	\$149,369	\$149,455	\$149,380	\$149,932	\$150,465	\$149,621

Appendix A

Statement of Actuarial Methods and Assumptions

Actuarial Funding Method

This valuation was performed using the "Aggregate Entry Age Normal" funding method. The required contribution was determined as a level percentage of payroll that, if paid from the average date of entry into the Judges' Retirement System II, provides for all benefits expected to be paid. This method is commonly used to determine contribution rates for new plans, or "tiers" of benefits. It produces stable normal costs in a population which grows at an uneven rate, as might be the case for California judges.

Asset Valuation Method

In order to dampen the effect of short term market value fluctuations on employer contribution rates, the following asset smoothing technique is used. First an Expected Value of Assets is computed by bringing forward the prior year's Actuarial Value of Assets and the contributions received and benefits paid during the year at the assumed actuarial rate of return. The Actuarial Value of Assets is then computed as the Expected Value of Assets plus one-fifteenth of the difference between the actual Market Value of Assets and the Expected Value of Assets as of the valuation date. However, in no case will the Actuarial Value of Assets be less than 80% nor greater than 120% of the actual Market Value of Assets. This smoothing technique is the same as that used for all CalPERS public agencies.

Amortization Policy

The unfunded liability is uniquely segregated into "bases" and amortized over different periods of time as a level percentage of payroll. The policy is the same as that used for all CalPERS public agencies: all changes in liability due to plan amendments, changes in actuarial assumptions or changes in actuarial methodology will be amortized separately over a 20-year period. In addition, the annual contribution amount with regard to gains and losses is calculated over a rolling 30-year amortization period. Finally, if the plan's accrued liability exceeds its actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization payment of the unfunded liability.

An exception to the funding rules above is used whenever the application of such rules results in inconsistencies. In these cases a "fresh start" approach is used. This simply means that the current unfunded actuarial liability is projected and amortized over a set number of years. It generally occurs when a total negative rate would result or a positive payment would be required on a negative unfunded actuarial liability (or conversely a negative payment on a positive unfunded actuarial liability). The amortization period depends upon the situation. However, the minimum employer contribution rate is equal to the employer normal cost minus a 30-year amortization of any surplus.

Actuarial Assumptions

The actuarial assumptions used in the valuation are shown below. These assumptions are based upon recommendations from both CalPERS actuarial staff and outside consulting actuaries. The assumptions did not change from the prior year's valuation.

Economic Assumptions

June 30, 2005

Gross Investment Return:	7.75%
Less Administrative Expense:	0.50%
Net Investment Return, compounded annually:	7.25%
Individual Salary Increases, compounded annually:	3.25%
Inflation:	3.00%

Overall Payroll Growth:

The segregated bases of the unfunded liability are amortized as a level percentage of payroll. In order to amortize a base over a level percentage of payroll in a plan that is growing at an uneven rate, the bases must be amortized by an increasing annuity. An increasing annuity table is derived each year using the following methodology. The average pay is projected to increase by 3.25% each year. The number of actives is projected to increase each year by the projected decrease in the Judges' Retirement System I (JRS I). The decrease in the number of actives in JRS I is computed by projecting the active population of JRS I (a closed group) for each year starting June 30, 2005. The projected payroll is the product of the number of actives and average pay.

Demographic Assumptions

Service Retirement

Rates vary by age and service.

Service Greater than 20 years

Age	Rate
Below 65	0.000
65	0.750
66	0.400
67	0.300
68	0.350
69	0.500
70*	1.000

* For Judges age 70 and older with 5 or more years of service the probability of retirement is 100%.

Withdrawal

Rates vary by age and service.

Entry Age	Years of Service					
	0-1	1-2	2-3	3-4	4-5	5 or more
35	0.00525	0.00525	0.00525	0.00525	0.00525	0.00225
40	0.00450	0.00450	0.00450	0.00450	0.00450	0.00375
45	0.00375	0.00375	0.00375	0.00375	0.00375	0.00750
50	0.00375	0.00375	0.00375	0.00375	0.00375	0.00900
55	0.00000	0.00000	0.00000	0.00000	0.00000	0.00825
60	0.00000	0.00000	0.00000	0.00000	0.00000	0.00750

Pre-Retirement Non-Industrial Mortality

Rates vary by age.

Non-Industrial Disability

Rates vary by age.

Attained Age	Pre- Retirement Mortality	Non- Industrial Disability
35	0.00079	0.00000
40	0.00122	0.00100
45	0.00164	0.00190
50	0.00256	0.00320
55	0.00365	0.00540
60	0.00577	0.00850
65	0.01064	0.01220
70	0.00000	0.00000

Industrial Mortality

Rates are zero.

Industrial Disability

Rates are zero.

Post-Retirement Mortality: 1994 GAM no setback

Rates vary by age and sex.

	Healthy	Healthy	Non- Industrial		Healthy	Healthy	Non- Industrial
Age	Male	Female	Disability	Age	Male	Female	Disability
35	0.00085	0.00048	0.02000	75	0.03721	0.02269	0.09100
40	0.00107	0.00071	0.02480	80	0.06203	0.03940	0.11350
45	0.00158	0.00097	0.02930	85	0.09724	0.06774	0.15350
50	0.00258	0.00143	0.03600	90	0.15293	0.11627	0.21350
55	0.00443	0.00229	0.04520	95	0.23361	0.18621	0.29370
60	0.00798	0.00444	0.05780	100	0.31724	0.27643	0.39770
65	0.01454	0.00864	0.06910	105	0.40722	0.38360	0.80000
70	0.02373	0.01373	0.07860	110	0.48675	0.48233	1.00000

Marital Status Probability of being married at service retirement or disability retirement is 90%.

Age of Spouse Assume that female spouses are 3 years younger than male spouses

Monetary Credit Plan Conversion Assumptions

The actuarial assumptions used to convert the balance in the Monetary Credit Plan to an annuity value are those used in the valuation of this plan and are stated above.

Appendix B

Summary of Principal Plan Provisions

Summary of Principal Provisions

Background

Judges' Retirement System II (JRS II) was established in 1994 to create a fully funded, actuarially-sound retirement system for judges appointed or elected on or after November 9, 1994. This system provides a unique combination of two basic types of retirement allowances: a defined benefit plan and a monetary credit plan. The defined benefit plan provides a lifetime monthly retirement allowance of up to 75 percent of final compensation. The monetary credit plan allows for a refund of member contributions, employer contributions (see below) and interest at retirement.

Membership

The JRS II provides retirement, death, withdrawal and disability benefits for Supreme and Appellate Court Justices, Superior Court Judges, and Municipal Court Judges who are appointed or elected on or after November 9, 1994, and their beneficiaries.

Member Contributions

Members of the system contribute 8% of their annual compensation to the plan.

Employer Contributions to Member Accounts

In addition to the 8% contribution by employees, the employer also contributes 10% of each member's annual compensation to that same member's account. This money is used at eligible retirement ages to increase the lump sum payment or annuity (described below) if the member chooses this option. If a member withdraws from the system before he or she has vested (accumulated at least 5 years of service), the member has no claim to them. After 5 years of service, however, these contributions become the property of the member upon withdrawal.

Service Retirement

Eligibility - Judges must be at least age 65 with 20 years or more of service or age 70 with a minimum of 5 years of service. Two types of service retirement are available: Defined Benefit Plan or Monetary Credit Plan. Election of a plan must be made within 30 days after retirement.

Defined Benefit Plan - This option provides a "defined benefit" of 3.75% of the highest 12-month average salary per year of service, up to 75% of final average pay for judges reaching age 65 with at least 20 years of service. The normal form of payment is a joint and 50% contingent annuity with the spouse as contingent annuitant. This provides a surviving spouse with a monthly allowance equal to 50%

of the judge's allowance. Optional settlements are available which reduce a judge's normal retirement benefit.

Monetary Credit Plan - This option provides a cash payment in a single lump sum or the member may elect to receive an annuity at retirement based on the contributions of the employee and the employer accumulated with interest earned as prescribed in the JRS II law.

Interest Earned on Monetary Balance

An additional amount is credited each month to a judges monetary balance. This additional amount or "interest earned" is credited at the annual net earnings rate achieved by the Judges Retirement System II Fund in the prior fiscal year. The annual net earnings rate cannot be less than zero.

Non-Industrial Disability Retirement (Non-Work Related)

Eligibility - Judges who have five years of service and become permanently disabled because of a mental or physical disability may apply to the Commission On Judicial Performance for disability retirement.

Benefit - An allowance, based upon the judge's age, equal to the lesser of the following:

- 3.75% of final compensation multiplied by the number of years of service the judge would have been credited had he or she continued to work until the age he or she would have first been eligible to retire, or
- 65% of the judge's average monthly salary during the 12 months preceding the retirement date.

The normal form of payment is a joint and 50% contingent annuity with the spouse as the contingent annuitant.

Industrial Disability Retirement (Work Related)

Benefit - Judges receive 65% of the judge's average monthly salary during the 12 months preceding the retirement date regardless of age or length of service.

The normal form of payment is a joint and 50% contingent annuity with the spouse as the contingent annuitant.

Non-Industrial Pre-Retirement Death Benefit

If Eligible for Service Retirement - Spouses receive either the monthly retirement allowance equal to one-half of the judge's "defined benefit" plan allowance or the judge's monetary credits.

If Not Eligible for Service Retirement - Spouses receive the judge's monetary credits or three times the annual salary at the time of death paid in 36 monthly installments, whichever is greater.

Industrial Pre-Retirement Death Benefit

If a judge dies in office, is age 65 or older with a minimum of 20 years of service and elects to have this provision apply (one time irrevocable election while judge is in office) then a payment to the surviving spouse is payable upon death. The spouse would receive a monthly allowance equal to the allowance paid to the judge had he or she retired immediately preceding death.

Post Retirement Death Benefit

If the Judge elected the Defined Benefit Plan - The surviving spouse of a retired judge who elected an Optional Settlement in the defined benefit plan receives one of four options:

- Option 1 - return of unused accumulated contributions;
- Option 2 - 4 - the Optional Settlement Benefit, the amount varies based on the option chosen by the member.

If the Judge elected the Monetary Credit Plan - If the full amount of monetary credits was received in a lump sum, there are no survivor benefits. If the judge elected the Monetary Credit Plan with benefits paid as an annuity, the spouse receives the amount based on the option chosen at retirement.

Cost-Of-Living Adjustments (COLA)

If the Judge elected the Defined Benefit Plan - The retirement allowance of retired judges who have elected the defined benefit plan will be adjusted every January after the judge has been retired six months. The adjustment is based on the United States city average of the "Consumer Price Index For All Urban Consumers," as published by the United States Bureau Of Statistics. No adjustment shall be made unless the cost-of-living increase equals or exceeds one percent (1%). Further, the allowance shall not be increased more than three percent (3%) in a single year. Increases shall be compounded.